

SPECIAL

BOSTON MUNICIPAL RESEARCH BUREAU

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REPORT

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No. 03-7

RESTORATIONS STABILIZE BOSTON'S FY04 BUDGET

As the dust settles from a frenetic fiscal 2004 budget process, the picture that emerges is a City that has been ruffled but not seriously hurt by fewer resources and the need to cut back. Boston's workforce and services grew during the good times, and will now shrink a little during more difficult times. The impact to services will be manageable and will vary by department. The heaviest impact will be in the School Department where important student support services will be curtailed and where the bulk of scheduled layoffs will occur. The Mayor and City Council approved the fiscal 2004 operating budget on June 26th at \$1.807 billion, a decrease of \$18.5 million or 1.0% from fiscal 2003. Key themes and budget highlights for fiscal 2004 include:

- **Boston's financial structure is still strong** ~ The City's finances are in balance even though state aid was reduced for the second straight year. Boston has controlled spending through position reductions and service efficiencies and has used a reasonable amount of reserves to protect core services.
- **\$61.0 million more in state aid than budgeted** ~ The Administration initially planned a budget estimating a local aid cut of \$100.8 million or 20.3% from FY03. Instead, local aid in the City's adopted budget was reduced by \$39.8 million or 8.0%. Local aid has been cut by \$83.7 million or 15.5% since fiscal 2002.
- **Fewer layoffs and service cuts than expected** ~ Restorations of \$54.2M were added to the FY04 budget with 61.0% allocated for education and public safety. Even so, over 1,600 positions will be cut and about 842 layoffs are planned. The BPS estimates 742 layoffs, including 34 teachers; other city departments estimate less than 100.
- **Municipal relief will help Boston** ~ The state municipal relief package was disappointing for municipalities but will allow Boston to set its overlay reserve for abatements based on need rather than a set percentage. This change may free up \$10.3 million in FY04.
- **Time to be creative** ~ The Administration should implement the departmental service efficiencies planned in the budget and continue to seek creative approaches to service delivery. Reserves should be applied carefully with limited use for recurring expenses. Even though a \$17.0 million reserve for collective bargaining was created, new contract negotiations should insure the integrity of the City's long-term financial health.

2004 BUDGET FACTS

Serving 589,141 residents of Boston and over 20,000 businesses & institutions

Operating Budget: \$1.807B (\$18.5M) -1.0%

Revenues	% Change from FY03	% of Total FY04
Property Tax	3.9%	57.3%
State Aid	-8.0%	25.3%
Reserves	100.0%	1.4%

Spending	% Change from FY03	% of Total FY04
Schools	-0.7%	35.8%
Police	-4.6%	11.6%
Fire	-2.9%	7.3%
Health Insurance	20.1%	6.9%

Other	% Change from FY03	Total FY04
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Grant Funds	2.5%	\$396.3M
Five-year capital budget	-13.9%	\$1.2B

8 departments and services receive 85% of all FY04 operating funds.

FISCAL 2004 GENERAL FUND REVENUE

The fiscal 2004 revenue budget of \$1.807 billion is a \$54.2 million or 3.1% increase over the Mayor's recommended budget, and reflects the larger-than-expected state aid amount. The net property tax is \$1.034 billion or 57.3% of all general fund revenues, while state aid is budgeted at \$457.7 million or 25.3% of revenues. Net property taxes and state aid combined comprise \$1.492 billion or 82.6% of all fiscal 2004 revenues. The Administration will use \$25.0 million in reserves to balance the budget, \$5.0 million less than the amount contained in the recommended budget.

State Aid - Boston's fiscal 2004 operating budget position hinged, in large part, on the amount of local aid received from the state. The Administration demonstrated caution in April by planning for the worst case scenario – a \$100.8 million or 20.3% cut from fiscal 2003. The approved budget contained \$457.7 million in local aid, a reduction of \$39.8 million or 8.0% from fiscal 2003. Each of Boston's three major state aid accounts, Chapter 70, Additional Assistance and Lottery, showed decreases from the prior year. Chapter 70, the City's single largest local aid account, was reduced by \$5.1 million or 2.5%. Additional Assistance was reduced by \$10.9 million or 6.2%, and Lottery distributions were cut by \$3.6 million or 6.2%. When combined with the \$44.0 million in cuts in fiscal 2003, Boston's local aid has been reduced by \$83.7 million or 15.5% since fiscal 2002. In July, after the budget was approved, Boston's estimated Cherry Sheet state aid for fiscal 2004 was set at \$463.7 million, \$6.0 million more than the adopted budget. This amount constitutes flexibility the Administration will have when it sets the fiscal 2004 tax rate in December.

Property Tax - The fiscal 2004 net property tax of \$1.034 billion is \$39.0 million or 3.9% more than fiscal 2003. The overlay reserve for abatements is budgeted at \$51.7 million or 5.0% of the net property tax, the minimum required by law. However, the recently approved municipal relief legislation removed this requirement and will allow Boston, like all other cities and towns, to set its overlay reserve at an amount it deems sufficient, subject to the approval of the Department of Revenue. If the City were to set its abatement reserve at 4.0% of the net property tax, approximately \$10.3 million would become available for use by the City in fiscal 2004.

Municipal Relief - The state municipal relief legislation was disappointing to municipal officials but did authorize increases in certain fees and fines and limited regulatory relief. Of particular note for Boston is the removal of the legal requirement surrounding the reserve for abatements mentioned previously. In addition, legislation is revised that will enable Boston to raise its towing fee from \$12 to the state maximum of \$75. The initial revenue estimate for this item is \$1.0 million. Finally, the legislation authorizes the creation of improvement districts that would utilize tax increment financing to attract development through infrastructure improvement in communities. This new tool should be used very cautiously in Boston.

Where the Money Comes From Figures in 000's

Account	Budget FY03	Adopted FY04	Change FY03-FY04	%
Gross Property Tax	\$1,035,271	\$1,086,153	\$50,882	4.9%
Overlay Reserve	(39,818)	(51,722)	(11,903)	29.9%
Net Property Tax	\$995,453	\$1,034,431	\$38,978	3.9%
Jet Fuel Excise	\$13,600	\$12,000	(\$1,600)	-11.8%
Chapter 121A	44,761	44,858	97	0.2%
Hotel/Motel Excise	20,000	19,000	(1,000)	-5.0%
Motor Vehicle Excise	38,006	38,005	(1)	0.0%
Other Tax Revenues	\$116,367	\$113,863	(\$2,504)	-2.2%
State Aid [1]	\$497,494	\$457,738	(\$39,756)	-8.0%
Parking Fines	\$60,852	\$62,676	\$1,825	3.0%
PILOTs	20,362	23,752	3,390	16.6%
Investment Income	10,750	6,200	(4,550)	-42.3%
Non-Recurring	17,846	7,096	(10,750)	-60.2%
Budgetary Fund Bal.	0	25,000	25,000	100.0%
Building Permits	15,000	12,500	(2,500)	-16.7%
Licenses/Permits	11,238	11,270	32	0.3%
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All Others	45,626	42,222	(3,405)	-7.5%
Subtotal Other	\$191,674	\$200,716	\$9,042	4.7%
Grand Total [2]	\$1,800,987	\$1,806,748	\$5,761	0.3%
Current FY03 Budget	(\$24,244)	n/a	n/a	n/a
Deficit				
Expected Budget	\$1,825,231	\$1,806,748	(\$18,483)	-1.0%

[1] FY03 does not include \$6.1M in additional teacher pension reimbursement actually received. FY04 amount does not include \$6.0M in Cherry Sheet aid received beyond adopted budget amount.

[2] The city currently shows a FY03 deficit, but will close the year in balance through spending controls and/or use of other available revenues.

FISCAL 2004 GENERAL FUND SPENDING

The fiscal 2004 general fund expense budget of \$1.807 billion is an increase of \$54.2 million or 3.1% over the Mayor's recommended budget. The additional funds were applied to departmental spending, primarily in education and public safety, which received 61.0% of the total. Also, a \$17.0 million reserve for collective bargaining was established. Spending controls and efficiencies introduced in the recommended budget were retained, including the consolidation of health care providers and the consolidation of two fire districts. Also retained was the one-time extension of the pension funding schedule. Eight departments and services receive 84.5% of all the City's operating funds in fiscal 2004.

General Fund Expenditures



Departmental Spending - Schools, Police, Fire and Public Works continue to lead departmental spending, comprising a combined \$1.1 billion or 59.2% of all fiscal 2004 expenditures. Education and public safety were the top priorities for restorations made possible by the increase in state aid. The School Department received an additional \$27.1 million, while the Fire and Police Departments received an additional \$3.0 and \$2.9 million, respectively. Approximately \$8.4 million of the additional funding for schools will retain 129 teachers to maintain class size goals, while another \$8.1 million will pay for scheduled salary increases. Individual schools will receive restorations of about 2.0% each, totaling \$8.2 million. The remaining \$2.4 million will keep planning and development periods in elementary schools and address collective bargaining issues with lunch monitors and custodians. The Fire Department's budget increase of \$3.0 million will preserve the jobs of 40 firefighters, and the Police Department will add a class of 60 new recruits and retain the cadet program with the \$2.9 million added to its appropriation.

Reductions in Service Delivery - While departmental restorations were made possible because of more local aid, position reductions and some layoffs will still occur. The public will notice the following impact to services:

- The School Department will reduce teaching and support positions like guidance counselors, lunch monitors and secretaries. Other staff will have to fill in where possible, thus pulling them away from their academic duties, which could have a negative ripple effect on academic services. Also, fewer high school electives will be offered and MCAS tutoring will be reduced.
- The traditional Fall and Spring cleanup programs by the Public Works and Parks Departments will be limited.
- The Parks Department will experience delays in some cleanup and maintenance services.
- Fewer summer jobs for city youth will exist.
- The Transportation Department will not establish new resident parking programs.
- The Boston Public Library will buy fewer books and reduce specialty department hours.
- City Hall Registry will be closed Wednesdays.

Where the Money Goes

Figures in 000's

Department	Budget FY03	Adopted FY04	Change FY03-FY04	%
Schools	\$650,618	\$646,100	(\$4,518)	-0.7%
Police	220,315	210,212	(10,103)	-4.6%
Pensions	134,425	135,108	683	0.5%
Fire	135,820	131,856	(3,964)	-2.9%
Health Insurance	104,356	125,372	21,016	20.1%
Public Works/Snow	80,473	81,063	590	0.7%
Public Hlth. Commission	63,897	58,582	(5,315)	-8.3%
Transportation	30,537	29,390	(1,147)	-3.8%
Library	28,008	23,981	(4,027)	-14.4%
CTR Youth/Family	19,114	18,404	(710)	-3.7%
ISD	14,084	13,081	(1,003)	-7.1%
Neighborhood Dev't.[1]	16,196	5,270	(10,927)	-67.5%
All Others	129,154	128,375	(779)	-0.6%
Subtotal	\$1,626,998	\$1,606,794	(\$20,205)	-1.2%
County	\$4,837	\$3,854	(\$983)	-20.3%
Debt Service	124,897	126,574	1,677	1.3%
State Assessments	68,498	69,526	1,027	1.5%
Subtotal Mandatory	\$193,395	\$196,100	\$2,705	1.4%
Grand Total	\$1,825,231	\$1,806,748	(\$18,483)	-1.0%

[1] Large decrease in appropriation in this department reflects planned decrease in allocation for the Leading the Way program.

Personnel- Reduction of the workforce is the City's primary means of cutting its spending since salaries and benefits represent approximately 70% of the fiscal 2004 operating budget. Layoffs of an estimated 842 employees are scheduled. This total includes an estimated 742 individuals in the School Department – 34 teachers (permanent and provisional) and 708 non-teachers. Also, less than 100 individuals are expected to be laid off in all other city departments. Position reduction was also achieved in this budget through natural attrition, employees participating in the recent early retirement and volunteer retirement programs, and the elimination of vacant positions. Final layoff decisions in the School Department will not be available until September when the application of its budget restoration is finalized and the staffing process is completed. In other city departments, the departmental breakdown for the layoffs will not be final until August, as the various departments work through the process of ensuring that reductions meet contractual and Civil Service guidelines.

GRANT FUNDS AND THE CAPITAL PLAN

In addition to the general fund, grant funds of approximately \$396.3 million are expected to be spent in fiscal 2004. The School and Neighborhood Development Departments and Suffolk County Sheriff are expected to spend a combined \$320 million or 80.8% of total grants available. Grant fund estimates have increased by \$9.7 million or 2.5% from fiscal 2003. Boston's fiscal 2004 five-year (FY2004-2008) approved capital budget totals \$1.2 billion, a 13.9% reduction from last year's five-year plan. New commitments in fiscal 2004 total \$72.6 million.

CONCLUSION AND RECOMMENDATIONS

Boston is well positioned to provide basic city services even with around 842 layoffs and a 1.0% reduction in its budget because it has managed to control costs and has resources at its disposal if needed. However, the City must also continue the efficiencies adopted in fiscal 2003 and 2004, and guard against making contractual agreements now that could threaten the City's long-term financial stability. Any available funds identified since the budget was approved should be retained and accounted for when the tax rate is set in December. Within this context, the Bureau recommends the following:

COLLECTIVE BARGAINING IS CRITICAL: The Menino Administration is in negotiations with every major employee union for new contracts. Union pressure on the Administration will grow as the Democratic National Convention nears next July. Even with limited dollars for salary increases, language changes to enhance management flexibility should be pursued and caution exercised about any increase in benefit provisions. Negotiations may be made more difficult this year by the experience in the last contract rounds that led to generous contracts for police officers, teachers and firefighters after the unions applied hardball tactics for an extended time. Given that the agreements reached in the coming months will have an impact on the City's financial position for years to come, a careful balance will need to be reached between political expediency and the impact to the City's long-term financial health.

USE RESERVES CAREFULLY: The Administration will use \$25.0 million in budgetary fund balance in fiscal 2004, and expects to have approximately \$40-\$45 million in reserve for future use after state certification. These funds are non-recurring and will have to be applied judiciously over the coming years. Boston must retain healthy reserve balances for future flexibility, credit rating purposes and long-term liabilities. That caveat also applies to any overlay reserves from prior years declared surplus by the City.

SOME REFORM IS OCCURRING, MORE CAN BE DONE: The Administration has made a responsible effort to control spending to meet the current fiscal reality. A position control process and the early retirement and volunteer retirement offerings in fiscal 2003 reduced the number of layoffs required in fiscal 2004. Spending controls over the costs of health benefits and debt service were implemented to make more resources available for departmental spending in fiscal 2004. The budget provides for the streamlining of operations with the consolidation of two fire districts, the redeployment of uniformed officers to direct service positions and the modernization of the Election Department that now should be implemented. However, more is needed. The closing of one or more fire stations should be put on the table for consideration. Bi-weekly pay periods should be instituted. Competitive service delivery should be initiated to achieve service efficiencies, as practiced in other cities. The City Council's refusal to consider contract cleaning for single custodian schools in June was ill-advised and costly to the City.

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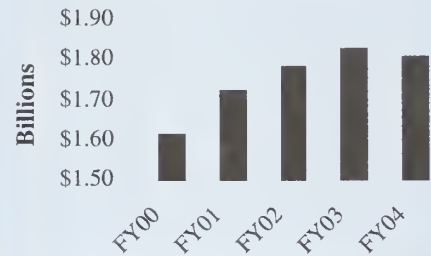
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In addition to the general fund, grant funds of approximately \$396.3 million are expected to be spent in fiscal 2004. The School and Neighborhood Development Departments and Suffolk County Sheriff are expected to spend a combined \$320 million or 80.8% of total grants available. Grant fund estimates have increased by \$9.7 million or 2.5% from fiscal 2003. Boston's fiscal 2004 five-year (FY2004-2008) approved capital budget totals \$1.2 billion, a 13.9% reduction from last year's five-year plan. New commitments in fiscal 2004 total \$72.6 million.

CONCLUSION AND RECOMMENDATIONS

Boston is well positioned to provide basic city services even with around 842 layoffs and a 1.0% reduction in its budget because it has managed to control costs and has resources at its disposal if needed. However, the City must also continue the efficiencies adopted in fiscal 2003 and 2004, and guard against making contractual agreements now that could threaten the City's long-term financial stability. Any available funds identified since the budget was approved should be retained and accounted for when the tax rate is set in December. Within this context, the Bureau recommends the following:

COLLECTIVE BARGAINING IS CRITICAL: The Menino Administration is in negotiations with every major employee union for new contracts. Union pressure on the Administration will grow as the Democratic National Convention nears next July. Even with limited dollars for salary increases, language changes to enhance management flexibility should be pursued and caution exercised about any increase in benefit provisions. Negotiations may be made more difficult this year by the experience in the last contract rounds that led to generous contracts for police officers, teachers and firefighters after the unions applied hardball tactics for an extended time. Given that the agreements reached in the coming months will have an impact on the City's financial position for years to come, a careful balance will need to be reached between political expediency and the impact to the City's long-term financial health.

USE RESERVES CAREFULLY: The Administration will use \$25.0 million in budgetary fund balance in fiscal 2004, and expects to have approximately \$40-\$45 million in reserve for future use after state certification. These funds are non-recurring and will have to be applied judiciously over the coming years. Boston must retain healthy reserve balances for future flexibility, credit rating purposes and long-term liabilities. That caveat also applies to any overlay reserves from prior years declared surplus by the City.

SOME REFORM IS OCCURRING, MORE CAN BE DONE: The Administration has made a responsible effort to control spending to meet the current fiscal reality. A position control process and the early retirement and volunteer retirement offerings in fiscal 2003 reduced the number of layoffs required in fiscal 2004. Spending controls over the costs of health benefits and debt service were implemented to make more resources available for departmental spending in fiscal 2004. The budget provides for the streamlining of operations with the consolidation of two fire districts, the redeployment of uniformed officers to direct service positions and the modernization of the Election Department that now should be implemented. However, more is needed. The closing of one or more fire stations should be put on the table for consideration. Bi-weekly pay periods should be instituted. Competitive service delivery should be initiated to achieve service efficiencies, as practiced in other cities. The City Council's refusal to consider contract cleaning for single custodian schools in June was ill-advised and costly to the City.